Spectrum Auctions

Why in news?

Recently Department of Telecommunications announced that 4G spectrum auctions for different bands will begin from March 1, 2021.

What are spectrum auctions?

- Cellphones & wireline telephones require signals to connect from one end to another & they are carried through airwaves at designated frequencies to avoid any kind of interference.
- These airwaves are called spectrum which are subdivided into bands having varying frequencies & are owned by the union government.
- These airwaves are sold by Central government through auctions for a certain period of time (20 years) after which validity lapses.
- With the expansion in the number of cellphone, wireline telephone & internet users, more space is required for signals to come.
- Hence Central government auctions the airwaves to companies which are willing to set up required infrastructure to transport these waves from one end to another.

What is the history of spectrum auctions?

- Spectrum auctions were conducted since 2010 (except in 2015) but they are largely unsuccessful due to the high reserve price fixed by the telecom regulator.
- In 2012, 1800 MHz & 800 MHz bands which were put up for sale only a small percent of 1800 MHz band was sold & 800 MHz was unsold completely.
- This unsold spectrum & additional spectrum of 900 MHz band which were auctioned in 2013 but the prices did not change significantly.
- In the 2014 auction, spectrum prices for the 900 MHz and 1800 MHz bands in the metros were much higher than international average.
- In 2016, though the bids were invited for over 2000 MHz spectrum was fixed Rs 5.3-lakh crore, it received only Rs 65,789 crore.
- Nearly 60% of the airwaves put on the block did not find any takers & there was not a single bid for the 700 MHz band due to the high reserve price.

Why is spectrum being auctioned now?

- The last spectrum auction was held in 2016 & government offered 2,354.55 MHz at a reserve price of Rs 5.60 lakh crore.
- Government managed to sell only 965 MHz (40% of the spectrum put up for sale) & the total value of bids received was just Rs 65,789 crore.
- The validity of the airwaves bought by companies is set to expire in 2021 & there was a need for new spectrum auction.
- On March 1 government plans to sell spectrum for 4G in the 700, 800, 900, 1,800, 2,100, 2,300, and 2,500 MHz frequency bands.
- The reserve price of all these bands together has been fixed at Rs 3.92 lakh crore which can go up based on the demand.

Who are likely to bid for the spectrum?

- Private telecom players- Reliance Jio Infocomm, Bharti Airtel & Vi -are eligible to buy additional spectrum to support the users on their network.
- Apart from these three, foreign companies are also eligible to bid for the airwaves.
- However foreign companies have to either set up a branch in India & register as an Indian company or tie up with an Indian company to retain the airwaves after winning them.

What will the bidding cost the three existing companies?

- Bidders can either buy new spectrum or renew the old spectrum licences which they already have.
- Analysts expect that Bharti Airtel will renew some of its old spectrum & not bid for new spectrum.
- Vi may not participate in this auction as it faces constraints in cash flow.
- However Reliance Jio will renew its existing 44 MHz spectrum & bid for additional spectrum in the 55 MHz band.
- It will incur a total capital expenditure of Rs 240 billion at reserve prices & it has to make an upfront payment of nearly Rs 60 billion if it opts for the long term deferred payment plan.

How will the deferred payment plan work?

- As per this plan, bidders of sub-1 GHz bands 700, 800 and 900 MHz have to pay 25% of the bidding amount now & rest later.
- For the above-1 GHz bands of 1,800, 2,100, 2,300, and 2,500 MHz, bidders have to pay 50% upfront & rest can be paid in equated annual instalments.
- However successful bidders have to pay 3 % of Adjusted Gross Revenue (AGR) as spectrum usage charges excluding the wire line services.

What will the concern in the upcoming auctions?

- Though the final reserve price for 800 MHz spectrum is 18.5% lower than the 2016 price, the price for 1800 MHz & 2300 MHz is 14.5% and 17.5% higher respectively.
- The spectrum price for 700 MHz was cut by 43% still it remains very expensive.
- The operators need to spend nearly Rs 65,000 crore to own 10 MHz of spectrum pan-India.
- Hence none of the existing operators will be in a position to place such an expensive bet with a collective debt of Rs 5- lakh crore.

Source: The Indian Express, The Business Line

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